

Memorandum to Examiner Woods

Attachment 1

Docket Nos. 00-0233 & 00-0335 (Consolidated)

IITA Exhibit X

Schedule X.XX

Test Telephone Company

Illinois Universal Service Funding Calculation

Based upon ICC Form 23A Report Data for December 31, 2000

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustment</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 1,000,000	\$ -	\$ 1,000,000
2	Materials and Supplies Inventory	Page 2, 13-Month Average	50,000		50,000
3	Customer Deposits	Form 23A, P 8, 4040	6,900	-	6,900
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	24,000	-	24,000
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,019,100
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	1,100,000	-	1,100,000
8	Less: Depreciation Expense	Form 23A, P 13, 6560	300,000	-	300,000
9	Total WC Operating Expense	line 7 - line 8	800,000	-	800,000
10	WC OE Requirement	line 9 * 45 / 360			100,000
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			100,000
13	Total Rate Base	line 5 + line 12			1,119,100
14	Total Operating Revenues	Form 23A, P 11, Total	1,495,000	-	1,495,000
15	Less: Illinois High Cost Fund		350,000	-	350,000
16	Net Operating Revenues	line 14 - line 15	1,145,000	-	1,145,000
17	Total Operating Expenses	Form 23A, P 14, Total	1,100,000	-	1,100,000
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	10,000	-	10,000
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	35,000	-	35,000
21	Income Tax Expense	line 34			13,559
22	Net Operating Income	line 20 - line 21			21,441
23	Return on Rate Base	line 22 / line 13			1.92%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			125,451
26	Adj to Achieve Target Return on RB	line 25 - line 22			104,010
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			169,786
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			35,000
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			2,513
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			32,487
33	Federal Income Tax Expense	line 32 * 34.00%			11,046
34	Total Imputed Income Tax Expense	line 31 + line 33			13,559
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

Memorandum to Examiner Woods

Attachment 1

Docket Nos. 00-0233 & 00-0335 (Consolidated)

IITA Exhibit X

Schedule X.XX

Test Telephone Company

Illinois Universal Service Funding Calculation

Based upon ICC Form 23A Report Data for December 31, 2000

Material & Supplies Worksheet and Other Information

Line #

1	December-99	\$47,000
2	January-00	\$50,000
3	February-00	\$52,000
4	March-00	\$50,000
5	April-00	\$54,000
6	May-00	\$54,000
7	June-00	\$52,000
8	July-00	\$53,000
9	August-00	\$52,000
10	September-00	\$51,000
11	October-00	\$50,000
12	November-00	\$45,000
13	December-00	\$40,000
14	13 Month Average	\$50,000

Sale/Lease Back Arrangement

☐

The company does not have any sale/lease back arrangement.

☐

The company does have sale/lease back arrangement and has provided to staff in responses to data request.

Lease Agreement with Affiliates

☐

The company does not have any lease agreements with affiliates.

☐

The company does have lease agreements with affiliates and has provided to staff in responses to data request.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

Memorandum to Examiner Woods**Attachment 1**

Docket Nos. 00-0233 & 00-0335 (Consolidated)

IITA Exhibit X

Schedule X.XX

Test Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
State Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 50,000
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 80,000
3	State Access Revenues	Trial Balance 12/31/00	\$ 200,000
4	State High Cost Support	Exhibit X, Line 15	\$ 350,000
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 50,000
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 730,000
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 250,000
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 280,000
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 150,000
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 60,000
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 740,000
12	Misc Revenues	Trial Balance 12/31/00	\$ 25,000
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 1,495,000</u>

OVERALL COST OF CAPITAL

Frontier LECs

<u>Capital Component</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>	<u>Tax Adjustment Factor¹</u>	<u>After-Tax Weighted Cost</u>
Long-Term Debt	40.0%	9.0%	3.60%	0.603	2.17%
Common Equity	<u>60.0</u>	13.8	<u>8.28</u>	1.000	<u>8.28</u>
Total	<u>100.0%</u>		<u>11.88%</u>		<u>10.45%</u>

Investor Owned LECs (excluding Frontier LECs)

<u>Capital Component</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>	<u>Tax Adjustment Factor²</u>	<u>After Tax Weighted Cost</u>
Long-Term Debt	40.0%	9.0%	3.60%	0.613	2.21%
Common Equity	<u>60.0</u>	15.0	<u>9.00</u>	1.000	<u>9.00</u>
Total	<u>100.0%</u>		<u>12.60%</u>		<u>11.21%</u>

Co-ops

<u>Capital Component</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>	<u>Tax Adjustment Factor³</u>	<u>After Tax Weighted Cost</u>
Long-Term Debt	40.0%	9.0%	3.60%	1.000	3.60%
Common Equity	<u>60.0</u>	15.0	<u>9.00</u>	1.000	<u>9.00</u>
Total	<u>100.0%</u>		<u>12.60%</u>		<u>12.60%</u>

¹ Tax Adjustment Factor = 1 - Composite Income Tax Rate = 1 - 0.397 = 0.603.

² Tax Adjustment Factor = 1 - Composite Income Tax Rate = 1 - 0.387 = 0.613.

³ Tax Adjustment Factor = 1 - Composite Income Tax Rate = 1 - 0.000 = 1.000.

Memorandum to Examiner Woods
Attachment 3

Comparison of Funding Calculations
Illinois Universal Service Funding Calculation

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Investor Owned</u>		
			<u>Frontier LECs</u>	<u>LECs</u>	<u>Co-ops</u>
1	Total Rate Base	Attachment 1, page 1, line 13	<u>\$ 1,119,100</u>	<u>\$ 1,119,100</u>	<u>\$ 1,119,100</u>
2	Net Op Inc before Income Taxes	Attachment 1, page 1, line 20	\$ 35,000	\$ 35,000	\$ 35,000
3	Income Tax Expense	line 17	<u>13,883</u>	<u>13,559</u>	<u>-</u>
4	Net Operating Income	line 2 - line 3	<u>\$ 21,117</u>	<u>\$ 21,441</u>	<u>\$ 35,000</u>
5	After-tax Cost of Capital	Attachment 2	<u>10.45%</u>	<u>11.21%</u>	<u>12.60%</u>
6	Target Net Operating Income	line 1 * line 5	<u>\$ 116,946</u>	<u>\$ 125,451</u>	<u>\$ 141,007</u>
7	Adj to Achieve Target Return on RB	line 6 - line 4	<u>\$ 95,829</u>	<u>\$ 104,010</u>	<u>\$ 106,007</u>
8	Gross Revenue Conversion Factor	line 18	<u>1.6575</u>	<u>1.6324</u>	<u>1.0000</u>
9	ROR Funding Deficiency Including Inc Taxes	line 7 * line 8	<u>\$ 158,837</u>	<u>\$ 169,786</u>	<u>\$ 106,007</u>
10	Calculation of Income Tax Expense				
11	Net Op Inc before Inc Taxes	line 2	\$ 35,000	\$ 35,000	\$ 35,000
12	Illinois Inc & Rep Tax Rate		<u>7.18%</u>	<u>7.18%</u>	<u>0.00%</u>
13	Illinois Inc & Rep Tax Expense	line 11 * line 12	<u>2,513</u>	<u>2,513</u>	<u>-</u>
14	Net Op Inc before Fed Inc Tax	line 11 - line 13	<u>32,487</u>	<u>32,487</u>	<u>35,000</u>
15	Federal Income Tax Rate		<u>35.00%</u>	<u>34.00%</u>	<u>0.00%</u>
16	Federal Income Tax Expense	line 14 * line 15	<u>11,370</u>	<u>11,046</u>	<u>-</u>
17	Total Imputed Income Tax Expense	line 13 + line 16	<u>\$ 13,883</u>	<u>\$ 13,559</u>	<u>\$ -</u>
18	Gross Revenue Conversion Factor	1 / ((1 - line 12) * (1 - line 15))	<u>1.6575</u>	<u>1.6324</u>	<u>1.0000</u>